

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

NOVEMBER 2007 VOLUME XXX NO. 5

This issue of the *Idaho Outlook* summarizes the October 2007 *Idaho Economic Forecast*. Once again, we have lowered our projections for the Gem State's economy. At the beginning of 2007 we forecast nonfarm employment growth would average 2.5% from 2006 to 2010. This growth rate was lowered further to 2.4% in April 2007, 2.3% in July 2007 and 2.1% in October 2007. These changes reflect the impacts of incorporating more up-to-date data, manufacturing job reductions, and the lower growth trajectory for the national economy.

A major difference between the January and April forecasts and the current forecast is the latter includes the 1,100-job reduction by Micron Technology, while the others do not. The company is the state's largest private employer, so its jobs cut will have a ripple effect through the state's economy. Beyond the company's gate, we estimate that for every job lost at Micron, another one will be lost somewhere else in the economy. One thing that has not changed from the previous forecasts is that construction woes will weigh down future growth. Up until last year, the construction sector was a major job engine for the state, advancing 5.3% annually over the previous decade. However, it shifts from 5<sup>th</sup> gear to reverse over the forecast period. Specifically, construction employment retreats about 1.7% annually over the next few years, as predicted housing starts stall near 16,500 units during most of the forecast period.

Despite these setbacks, the Gem State's economy will still move

forward. Fueling this advance will be the nongoods-manufacturing sector. Bolstered by expected gains in its professional and business, education and health, and leisure and hospitality components, anticipated nongoods-employment growth accelerates from 2.4% in 2007 to 3.1% in 2010. Thanks to this sector's performance, total Idaho nonfarm employment rises from 638,899 in 2006 to 693,178 in 2010. Over this same period, Idaho real personal income expands at a 4.4% average annual clip.

The national economic outlook has cooled since the last *Forecast* was published. In July 2007, real GDP was expected to advance an average of 2.7% per year over the forecast period. In the current *Forecast* real GDP rises 2.4% annually. This difference may appear negligible, but as a result of the slower growth, real output is a quarter trillion dollars lower (2.0%) in 2010 compared to the previous forecast. The national employment forecast has also been scaled back, so by 2010 there are nearly 1.1 million fewer jobs than in the July 2007 *Forecast*. Given the weaker employment forecast, it comes as no surprise real personal income loses ground over the next few years, coming in at \$10.9 trillion versus the previously anticipated \$11.0 trillion.

These comparisons of annual projections provide an overview of how the national economic climate has changed recently, but they mask important details. In July 2007 it was reported economic growth would spike at a 3.8% annual rate in the second quarter of 2007, then downshift to under 3.0% through the

third quarter of 2008. The slowdown is more severe in the October 2007 *Forecast*. Real GDP growth drops below 3.0% beginning in the third quarter of this year, but the current forecast's slowdown lasts through the next year's fourth quarter. This one-quarter extension weakens real GDP growth relative to the July 2007 *Forecast*. Specifically, real GDP expands 2.5% from the third quarter of 2007 to the third quarter of 2008. In comparison, real GDP increases 3.5% over this same period in the previous forecast.

While the details differ, the July and the October forecasts agree the economy will be fragile over the next few months. The most likely path for the current forecast is for the economy to avoid a recession and begin picking up steam again in the second half of next year and to continue expanding through 2010. However, negative detours to the expected forecasts are possible. In order to account for these paths, pessimistic alternatives were prepared in addition to the baseline forecasts in July and October. These alternatives show how the economy has become more fragile since this summer. First, the likelihood of a pessimistic outcome has increased from 20% to 30%. Second, not only has the odds of a slowdown increased, but so has its severity. In the July 2007 pessimistic forecast, growth slows, but remains positive. In the October 2007 alternative forecast, the economy slips into a two-quarter recession beginning with the last quarter of 2007.

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## General Fund Update

As of October 31, 2007

| <u>Revenue Source</u>                 | <u>\$ Millions</u>                      |                          |                           |
|---------------------------------------|---|--------------------------|---------------------------|
|                                       | FY08<br>Executive Estimate <sup>3</sup> | DFM<br>Predicted to Date | Actual<br>Accrued to Date |
| Individual Income Tax                 | 1,392.5                                 | 373.5                    | 393.2                     |
| Corporate Income Tax                  | 189.1                                   | 52.3                     | 49.1                      |
| Sales Tax                             | 1,172.2                                 | 412.9                    | 424.2                     |
| Product Taxes <sup>1</sup>            | 26.7                                    | 10.3                     | 10.4                      |
| Miscellaneous                         | 124.8                                   | 31.1                     | 35.3                      |
| <b>TOTAL GENERAL FUND<sup>2</sup></b> | <b>2,905.3</b>                          | <b>880.1</b>             | <b>912.2</b>              |

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2007

General Fund revenue was \$1.9 million ahead of target in October, making this the weakest month of FY 2008 so far. A fourth consecutive monthly gain from the individual income tax (up by \$2.5 million) was offset by the first monthly shortfall in the sales tax (down by \$0.4 million). Two notable events occurred in October that need explanation. One is an inadvertent payment in the sales tax category that boosted October receipts by \$3.9 million that will be refunded in November. The other is a change to the way receipts associated with the Multi-State Tax Compact (MTC) are treated in the Tax Commission's Comparative Statement. The latter change has a minor impact on the individual income tax and the sales tax, and a much larger impact on the corporate income tax.

Individual income tax revenue was \$2.5 million higher than expected in October, bringing the fiscal year-to-date

excess to \$19.8 million ahead of expectations. Within the components of the income tax, filing payments were \$9.7 million higher than expected for the month, but this was offset by withholding payments that were \$3.6 million lower than expected and refunds that were \$3.5 million higher than expected.

Corporate income tax revenue was \$0.1 million lower than expected in October. This brings the fiscal year-to-date shortfall to \$3.2 million. This month's data is impacted by a change in the manner in which MTC audit receipts are treated in the accounting system. Without the change, October's receipts would have been approximately \$6.2 million higher, but the year-to-date result would have still been \$3.2 million short. The change amounts to treating MTC audit receipts in a manner similar to refunds, looking at accrued values

rather than distributed values. The net effect is more accurate monthly data.

Sales tax revenue was \$0.4 million lower than expected in October, making this the first month of the fiscal year that sales tax receipts fell short of expectations. And the extent of October's shortfall was actually masked by a mistaken payment of \$4.3 million that should have been in the amount of \$0.43 million. Had the correct amount been paid, October would have been short by \$3.84 million. Instead, the \$3.87 million in excess October receipts will be refunded next month and artificially bring November down by \$3.44 million (the General Fund's share of the \$3.87 million mistake).

Product taxes were slightly (\$0.1 million) below target in October, while miscellaneous revenue was \$0.1 million higher than expected for the month.